

## Message Text

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ACTION EA-10

INFO OCT-01 IO-10 ISO-00 AGR-05 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 FEA-01 EUR-12 NEA-10 /121 W

----- 039683

R 130825Z JUN 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 630

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

USDEL MTN GENEVA

CINCPAC

C O N F I D E N T I A L SEOUL 4235

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, ETRD, KS

SUBJECT: BALANCE OF PAYMENTS OUTLOOK IMPROVES

REF: (A) SEOUL 3738 (B) SEOUL A-122 (C) SEOUL 2957 (D) SEOUL 2528

SUMMARY: SHARP INCREASE IN EXPORT ORDERS PLUS FALL IN IMPORTS HAS RESULTED IN IMPROVED BOP OUTLOOK AND AT LEAST TEMPORARY HALT TO 16-MONTH DECLINE IN NET FOREIGN ASSETS. FOREIGN EXCHANGE SITUATION WILL REMAIN DIFFICULT FOR SOME MONTHS, HOWEVER, DUE TO HEAVY RELIANCE ON SHORT-TERM CREDITS AND FOREIGN BANKERS RELUCTANCE TO INCREASE OR MAINTAIN LARGE EXISTING LINES. APPROVAL OF PL 480 SALES EARLY IN FY 1976 STILL RECOMMENDED. END SUMMARY.

1. THIS MESSAGE DESCRIBES CURRENT BALANCE OF PAYMENTS

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SITUATION AND OUTLOOK. FOR PURPOSES OF U.S. POSITION

AT JULY 2-3 CONSULTATIVE GROUP MEETING NO CHANGE IS INDICATED FOR STATEMENTS ON NEED FOR FOREIGN FINANCING AND APPRAISAL OF DDBT SERVICE CAPACITY ALONG LINES RECOMMENDED IN REF (A). SUBSEQUENT MESSAGE WILL DEAL WITH KOREAN MEASURES TO ALLEVIATE BOP THROUGH DEMAND RESTRAINT AS OTHER ISSUE LIKELY TO ARISE AT CG MEETING.

2. BOP OUTLOOK HAS DEFINITELY IMPROVED IN PAST TWO MONTHS DUE TO SHARP RISE IN EXPORT ORDERS AND DECLINE IN IMPORT LICENSES. APRIL-MAY EXPORT L/C ARRIVALS WERE 50 PERCENT ABOVE LOW FIRST QUARTER AVERAGE SEASONALLY ADJUSTED, WITH TEXTILES PARTICULARLY STRONG. EXPORT SHIPMENTS HAVE NOT YET RISEN, HOWEVER, AND FOR FIRST HALF THEY WILL APPROXIMATE EMBASSY FORECAST OF DOLS 2.0 BILLION. BIG QUESTION IS WHETHER SECOND HALF WILL SEE MODEST EXPORT GAIN (TO DOLS 2.55 BILLION PREDICTED BY EMBASSY) OR LARGE INCREASE (TO DOLS

3.0-3.4 BILLION PREDICTED BY KOREAN ECONOMISTS AND PROJECTED BY RECORD MAY L/C ARRIVALS OF OVER DOLS 500 MILLION). INVENTORY TURNAROUNDS ABROAD ARE IMPORTANT FACTOR IN CURRENT UPSWING AND FOREIGN DEMAND MAY PLATEAU FOR PERIOD UNTIL FINAL CONSUMPTION INCREASES. AS REPORTED REF (B), TEXTILE EXPORTERS FEAR THAT ORDERS MAY FALL OFF FROM CURRENT HIGH LEVELS. TEXTILE AND PLYWOOD ORDERS FROM U.S. HAVE PICKED UP; ORDERS FROM JAPAN REMAIN WEAK; ORDERS FROM EUROPE MIDDLE EAST AND OTHER MARKETS REMAIN STRONG.

3. EXCEPT FOR MAY, IMPORTS HAVE BEEN RUNNING AT RECORD LEVELS AND FOR FIRST HALF WILL PROBABLY APPROXIMATE EMBASSY ESTIMATE OF DOLS 3.4 BILLION ON FOB-BOP BASIS. RECENT LOWER IMPORT LICENSING LEVELS, REFLECTING HIGHER IMPORT DEPOSITS AND FALL-OFF FROM SPECULATIVE ORDERING OF LATE 1974, RESULTED IN VERY LOW IMPORTS IN MAY. THIS LEVEL CANNOT BE SUSTAINED, HOWEVER, DUE TO INVENTORY DRAWDOWNS TO FILL RISING EXPORT ORDERS. EARLIER EMBASSY ESTIMATE OF ONLY DOLS 3.4 BILLION FOR SECOND HALF IMPORTS FOB NOW APPEARS TO BE ON LOW SIDE, WITH EXCESS DEPENDING ON FUTURE STRENGTH OF EXPORT ORDERS. ANY OIL PRICE INCREASE IN FALL WOULD  
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ADD (ABOUT TWO MONTHS LATER) TO CRUDE OIL IMPORT BILL CURRENTLY AVERAGING ABOUT DOLS 100 MILLION PER MONTH. AS PART OF SECOND HALF TRADE PLAN, ROKG RECENTLY TIGHTENED LICENSING SYSTEM SOMEWHAT BUT IS CONSIDERING ROLLBACK OF ADVANCE DEPOSITS ON IMPORTS OF ESSENTIAL ITEMS FOR DOMESTIC USE, SUCH AS RAW SUGAR, COTTON AND SCRAP IRON.

4. BOP DEFICIT: IN LIGHT OF RECENT SURGE IN EXPORT

ORDERS, EMBASSY NOW FORESEES CURRENT ACCOUNT BOP DEFICIT IN DOLS 2.0-2.4 BILLION RANGE, WITH MIDPOINT ESTIMATE OF DOLS 2.2 BILLION NOW APPEARING SOMEWHAT MORE PROBABLE THAN EARLIER DOLS 2.4 BILLION ESTIMATE. PRELIMINARY ROKG ESTIMATE OF FIRST QUARTER 1975 DEFICIT IS DOLS 809 MILLION, OR DOLS 1,023 MILLION IF IMPORT ADJUSTMENT AND ERRORS AND OMISSIONS ARE EXCLUDED. SECOND QUARTER DEFICIT OF ABOUT DOLS 700 MILLION STILL PROBABLE BUT SECOND HALF DEFICIT MORE LIKELY BE AROUND DOLS 600 MILLION THAN DOLS 800 MILLION ESTIMATED IN REF (D).

5. EXCHANGE RESERVES: KOREA'S FOREIGN EXCHANGE POSITION IMPROVED IN MAY, DUE CHIEFLY TO UNUSUALLY LOW IMPORTS. GROSS RESERVES ROSE DOLS 12 MILLION TO DOLS 968 MILLION (PRELIMINARY) COMPARED TO MARCH LOW OF DOLS 880 MILLION AND DECMBER TOTAL OF DOLS 1,049 MILLION. NET FOREIGN ASSETS IMPROVED DOLS 54 MILLION TO MINUS DOLS 637 MILLION, ENDING 16-MONTH DECLINE. EXCLUDING LONG-TERM LIABILITIES, NET ASSETS AT END OF MAY WERE MINUS DOLS 82 MILLION, COMPARED TO MARCH LOW OF MINUS DOLS 163 MILLION AND YEAR-END TOTAL OF PLUS DOLS 297 MILLION.

6. FINANCING PROSPECTS: WHILE RECENT IMPROVEMENTS IN EXPORT AND IMPORT TRENDS AND RESERVE POSITIONS ARE HEARTENING TO ROKG OFFICIALS, THEY EXPECT FOREIGN EXCHANGE POSITION TO REMAIN DIFFICULT FOR AT LEAST SEVERAL MONTHS. REPAYMENTS OF OUTSTANDING SHORT-TERM LIABILITIES TOTALING ABOUT DOLS 1.8 BILLION, MOSTLY ON 3-6 MONTH TERMS, WILL RUN DOLS 300-400 MILLION PER MONTH FOR REMAINDER OF YEAR, HOPEFULLY PEAKING IN JULY. LARGELY DUE TO UNCERTAINTIES CREATED BY FALL OF

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VIETNAM, SOME FOREIGN BANKS DESIRE REDUCE TOTAL EXPOSURE TO KOREA AND OTHERS ARE RELUCTANT TO INCREASE EXISTING LINES. ATTEMPTS TO SECURE CASH LOANS OR COMMERCIAL CREDITS FROM MIDDLE EAST OIL PRODUCERS HAVE NOT BEEN SUCCESSFUL SO FAR. KOREA WILL RECEIVE ABOUT DOLS 70 MILLION THIS MONTH AS FIRST TRANCHE OF IMF OIL FACILITY, WITH NEXT DRAWING LIKELY IN OCTOBER. NO DRAWING ON IMF EXTENDED FUND FACILITY, IF APPROVED, LIKELY UNTIL END OF YEAR. LONG-TERM CAPITAL ARRIVALS HAVE BEEN DISAPPOINTING SO FAR AND MAY FALL SHORT OF EMBASSY ESTIMATE OF DOLS 1.5 BILLION ON VNET BASIS (PLUS DOLS 100 MILLION NET MEDIUM-TERM CREDITS, MAINLY CCC). IN FIRST QUARTER NET LONG-TERM ARRIVALS WERE ONLY DOLS 144 MILLION, OR ONLY 20 PERCENT OF TOTAL CAPITAL INFLOWS, BUT BOTH APPROVALS AND ARRIVALS ARE

NOW IMPROVING.

7 CONCLUSION: FX SITUATION WILL PROBABLY REMAIN  
TIGHT FOR REMAINDER OF YEAR AND COULD BECOME SERIOUS  
IF EXPORTS SHOULD FALL OFF WHILE IMPORTS ARE RISING.  
USG SHOULD PROVIDE SUPPORT ALONG LINES RECOMMENDED  
REF (D), PARTICULARLY IN FORM ADDITIONAL PL 480  
SALES EARLY IN FY 1976.  
SNEIDER UNQUOTE SNEIDER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, BALANCE OF PAYMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 JUN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ElyME  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975SEOUL04235  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750207-0677  
**From:** SEOUL  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750652/aaaabvci.tel  
**Line Count:** 178  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 SEOUL 3738, 75 SEOUL A-122, 75 SEOUL 2957, 75 SEOUL 2528  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ElyME  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 JUN 2003 by BoyleJA>; APPROVED <04 NOV 2003 by ElyME>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** BALANCE OF PAYMENTS OUTLOOK IMPROVES  
**TAGS:** EFIN, ETRD, KS  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006